Resurgence in COVID-19 Threatens to Derail the Recovery

New case growth and hospitalizations appear to be accelerating primarily in the Sun Belt. Even without new lockdowns, the economic toll from acute COVID-19 outbreaks in multiple metro areas will begin to add up.

Hazards Ahead: Growth Drivers May Soon Start to Hit the Brakes
We recently wrote that a growing number of coronavirus cases in several metro areas in the Sun Belt region could inhibit economic activity in those areas and potentially set back the broader economic recovery. Since then, public health conditions in those areas appear to be getting worse, meaning a smooth climb back toward prior peak levels is beginning to look increasingly less likely. At this point, there seems to be little appetite for imposing widespread stay-at-home orders or closing down businesses. That said, re-opening efforts have been paused in Florida and Texas, and bars there are being mandated to close amid a rising number of hospitalizations in the state’s major metro areas. More precise restrictions may be on the way in hard-hit areas. But even in the absence of new regulations, the renewed threat of the coronavirus will likely lead to more cautious consumer and business behavior and weigh on the recovery nationwide.

The coronavirus is intensifying in several large metro areas which account for a large share of economic activity. Southern California is seeing a sharp acceleration in new infections. The Los Angeles and San Diego metro areas together make up about 7.0% of national GDP. Similarly, Houston (2.7%) has seen new cases spike in recent weeks. South Florida has also had a difficult time tamping down the pandemic. The Miami-Fort-Lauderdale-West Palm Beach metro comprises 1.9% of GDP. New cases are also rising sharply in Florida’s other major metro areas, especially in Tampa and Orlando and, to a lesser extent, Jacksonville. These three metros combined account for 2.1% of the nation’s GDP.

Many of the areas seeing a renewed spike in COVID-19 also punch well above their weight in terms of economic growth. Texas is a clear example. In addition to Houston, which declared a Level 1 emergency today, COVID-19 infections have accelerated in Dallas, Fort Worth, Austin and San Antonio. These metros account for 4.5% of U.S. GDP, yet were responsible for 8.6% of U.S. GDP growth between 2014 and 2018. Atlanta is another example. The long-time epicenter of the rapidly-growing Southeast accounts for 2.2% of the national GDP but has accounted for nearly twice that share (4.0%) of GDP growth the past five years. The coronavirus is also exploding in Phoenix (1.4% of GDP, 2.1% of GDP growth). Other high-growth metros seeing a marked rise in COVID-19 cases include Charlotte, Nashville and Las Vegas.

While the increase is alarming, the latest outbreaks differ from what recently occurred in New York and New Jersey. First off, the numbers are much smaller. Florida, which has two million more people than New York State, is seeing just a fraction of the cases New York did earlier this spring. The increase in positive tests in the Sun Belt is also among significantly younger persons, which helps explain why hospitalizations have not yet ramped up in line with new cases. While the spread has picked up among the young, the threat is across the entire economy and we expect the pace of re-openings to slow as households and businesses exercise more caution.

Source: Opportunity Insights Economic Tracker, U.S. Department of Commerce and Wells Fargo Securities
Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.  Chief Economist  (704) 410-3274  jay.bryson@wellsfargo.com
Mark Vitner  Senior Economist  (704) 410-3277  mark.vitner@wellsfargo.com
Sam Bullard  Senior Economist  (704) 410-3280  sam.bullard@wellsfargo.com
Nick Bennenbroek  International Economist  (212) 214-5636  nicholas.bennenbroek@wellsfargo.com
Tim Quinlan  Senior Economist  (704) 410-3283  tim.quinlan@wellsfargo.com
Azhar Iqbal  Econometrician  (212) 214-2029  azhar.iqbal@wellsfargo.com
Sarah House  Senior Economist  (704) 410-3282  sarah.house@wellsfargo.com
Charlie Dougherty  Economist  (704) 410-6542  charles.dougherty@wellsfargo.com
Michael Pugliese  Economist  (212) 214-5058  michael.d.pugliese@wellsfargo.com
Brendan McKenna  International Economist  (212) 214-5637  brendan.mckenna@wellsfargo.com
Shannon Seery  Economic Analyst  (704) 410-1681  shannon.seery@wellsfargo.com
Matthew Honnold  Economic Analyst  (704) 410-3059  matthew.honnold@wellsfargo.com
Jen Licis  Economic Analyst  (704) 410-1309  jennifer.licis@wellsfargo.com
Hop Mathews  Economic Analyst  (704) 383-5312  hop.mathews@wellsfargo.com
Coren Burton  Administrative Assistant  (704) 410-6010  coren.burton@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC, is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC. and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2020 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE